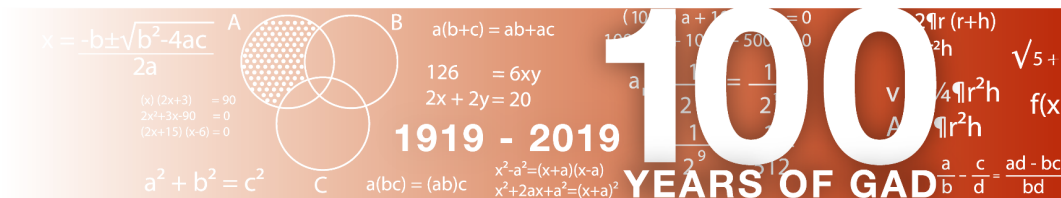




Government
Actuary's
Department



Armed Forces Pension Arrangements

Early and late retirements in normal health

Factor guidance

Version 1.0

Date: 2 May 2019
Author: Joanne Rigby





Contents

1	Introduction	3
2	Early retirement with actuarial reduction	5
3	Using the factors	7
4	Exclusions and limitations	9
	Appendix A: Assumptions underlying actuarial factors	10
	Appendix B: Factor tables	11



1 Introduction

- 1.1 This note is provided for the Ministry of Defence (MoD) as scheme manager of the Armed Forces pension arrangements and sets out how to determine the appropriate reduction to be applied to a member's benefits when retiring early or late in normal health for eligible members of AFPS 15, AFPS 05 and AFPS 75. The factors may also be used for early retirement cases in RFPS and FTRS.
- 1.2 This note covers early and late retirements in normal health only for eligible members of AFPS 15, AFPS 05, AFPS 75, RFPS and FTRS. In particular, this note does not cover factors to be used to adjust pension debits or credits, or factors to adjust Annual Allowance offsets, or late retirement factors for members who were in service over the period of delay.
- 1.3 A member may have benefits in both AFPS15 and in Armed Forces legacy pension schemes. For the purposes of calculating a member's early retirement pension, the early retirement pension for each scheme should be calculated separately using the relevant parts of this guidance.
- 1.4 This guidance supersedes any guidance previously issued for the purpose of general early and late retirement calculations.
- 1.5 The factors provided in this note were prepared in light of our general factors advice to MoD dated 28 February 2018 and 30 October 2018.
- 1.6 The spreadsheet sent to MoD on 22 November 2018 contains the relevant factors for use in early retirement calculations. The table for use in general early and late retirement calculations is table 401. The factors shown in Appendix B of this guidance note are unchanged from the factors provided on 22 November 2018.
- 1.7 These factors are "MoD-Controlled" factors and so it is MoD's decision whether to update these factors after considering GAD's recommendation. MoD has informed GAD that these factors came into force with effect from 1 April 2019.
- 1.8 Appendix A in this guidance sets out the assumptions used in the determination of factors.

Implementation and Review

- 1.9 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Armed Forces Pension Schemes. Any questions concerning the application of the guidance should, in the first instance, be referred to MoD.
- 1.10 In line with best practice and in order to make sure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.



- 1.11 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.



2 Early retirement with actuarial reduction

Background

- 2.1 Early retirement refers to the option of early payment of benefits with actuarial reduction. Deferred benefits are payable without reduction from age 65 for AFPS 05 and SPA (or age 65 if later) for AFPS 15, but members can draw these benefits at any age from age 55 with actuarial reduction to allow for the early payment. However, pensions payable on a member's death to their spouse, partner or dependant are not reduced.
- 2.2 AFPS 75 deferred pensioners with pre- and post-April 2006 service may have benefits payable from age 60 and 65 respectively. They have the option to bring age 65 benefits into payment early subject to actuarial reduction.
- 2.3 AFPS 15 also allows for enhancement of pensions which are paid later than the earliest age at which they are payable without reduction. If the member is in service for the period over which the pension is delayed then an "in-service late payment supplement" is paid. If the member is not in service for the period over which the payment is delayed then a "late payment supplement" applies.
- 2.4 These factors should be used for members who were not in service over the period of delay and who are therefore entitled to a late payment supplement. There is separate guidance available regarding the in-service late payment supplement.
- 2.5 Pension credits and debits may also be adjusted if they come into payment earlier or later than assumed. However, the early and late retirement factors provided in this note should not be used for such circumstances. There are separate adjustment factors provided specifically for adjusting pension credits and debits. There are also separate adjustment factors provided for adjusting Annual Allowance offsets.

Armed Forces pensions regulations

- 2.6 Rule 44 of SI 2014 No.2336 of the Armed Forces Pension Regulations 2014 which came into force on 1 April 2015, sets out the eligibility criteria and restrictions on the early payment of pensions with actuarial reduction. The "early payment reduction" is defined in rule 3 as *"the actuarial reduction that is applied when calculating the annual rate of pension payable to a member of this scheme who has not reached their normal pension age and applies to receive their pension before their deferred pension age."*
- 2.7 The AFPS15 "late payment supplement" is defined in rule 3 as *"an additional amount of pension that the scheme manager determines to be appropriate, after consulting the scheme actuary, because (a) an active member leaves service at or after normal pension age but delays receipt of their pension; or (b) a deferred member or a pension credit member delays receipt of their pension beyond their deferred pension age."*
- 2.8 Rule D.4 of SI 2005 No.438 the Armed Forces Pension Scheme Order 2005 (as amended), which came into force on 6 April 2005, sets out the eligibility criteria and restrictions on the early payment of pensions with actuarial reduction for Officers and Other Ranks. The reference in RFPS regulations is similar.



- 2.9 Rule D.4(4) of the regulations states that: *“The amount of the annual pension to which the member becomes entitled is first calculated as mentioned in rule D.2(3) or rule D.3(5) and then that amount is reduced by such amount as the Secretary of State determines after consulting the Scheme actuary.”*
- 2.10 Rule D.17(1) of the Armed Forces Pension Scheme 1975 and Attributable Benefits Scheme (Amendment) Order 2010 states that *“A member who is entitled to a further pension under rule D.11(2)(b) may opt, before reaching the age of 60, to receive the pension from the age of 60 at an actuarially reduced rate.”*
- 2.11 For some of the clauses above, it is not clear whether the actuarial reduction is under the control of MoD or the actuary. It is assumed that all the actuarial reductions and enhancements covered in this guidance are under MoD's control on actuarial advice. However if there is uncertainty about the meaning of the regulations legal advice should be sought.



3 Using the factors

Adjustment to pension

- 3.1 The factors in Appendix B are unisex factors.
- 3.2 The ages in use in the factor tables are based on the member's age at retirement in years and complete months. Part months are ignored.
- 3.3 Before using the factors, the member's pension should have the relevant increases applied from the date of leaving the scheme until the date of early/late retirement.
- 3.4 To calculate a reduction or increase to pension, the factor at early/late retirement age should be divided by the factor at the default pension age. This is then multiplied by the unadjusted pension to calculate the adjusted pension.
- 3.5 These factors are not applicable for the uplift required to AFPS 15 pensions that come into late payment when an active member leaves service after NPA 60 (such factors are provided separately). These factors are applicable for the following AFPS 15 cases:
- where a member leaves service at NPA 60 and delays receipt of their pension;
 - where a deferred member delays receiving their pension beyond their Deferred Pension Age ("DPA"). To calculate the LRF, their default pension age will, for this purpose, be their DPA; and
 - where an active member, who has served beyond NPA 60, then delays taking their pension immediately on exit. To calculate the LRF, their default pension age will, for this purpose, be the age at which they left service.
 - to adjust Added Pension as in point 3.6 below.
- 3.6 To adjust the Added Pension upon a member leaving service with only entitlement to deferred benefits (no EDP entitlement), divide the factor at the member's DPA by the factor for Age 60 years and 0 months and multiply the result by the Added Pension amount.
- 3.7 Pensions payable to a member's spouse, civil partner, other adult dependant and/or eligible children should not be reduced/increased.
- 3.8 These factors should **not** be used for adjusting pension debits or credits or for Scheme Pays adjustments.



- 3.9 An illustration of how the factors are used is given below:

A member leaves AFPS 15 at age 35 with a pension of £3,000 pa. This is payable from age 66, his SPA. He elects to take early payment of pension with actuarial reduction at age 55. His pension that is paid to him at age 55 is then:

$$\text{Pension} = £3,000 \times 1.80 \times 0.434/0.770 = £3,044 \text{ pa}$$

(where 1.80 is an illustrative Pensions Increase over the period from leaving the scheme until age 55)

Adjustment to Lump Sum

- 3.10 The factors in Appendix B are unisex factors.
- 3.11 The ages in use in the factor tables are based on the member's age at retirement in years and complete months. Part months are ignored.
- 3.12 Before using the factors, the member's lump sum should have the relevant increases applied from the date of leaving the scheme until the date of early retirement.
- 3.13 On early retirement, the members' lump sum should be multiplied by the relevant factor.
- 3.14 These factors should **not** be used for adjusting pension debits or credits or for Scheme Pays adjustments.
- 3.15 An illustration of how the factors are used is given below:

A member leaves AFPS 15 at age 35 with a lump sum of £9,000 pa. This is payable from age 66, his SPA. He elects to take retire early with an actuarial reduction at age 55. His lump sum that is paid to him at age 55 is then:

$$\text{Lump sum} = £9,000 \times 1.80 \times 0.789 = £12,782 \text{ pa}$$

(where 1.80 is an illustrative Pensions Increase over the period from leaving the scheme until age 55)



4 Exclusions and limitations

- 4.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 4.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 4.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- 4.4 This guidance only covers the actuarial principles around the calculation and application of early retirement factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 4.5 Scheme managers and administrators should satisfy themselves that early retirement calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- 4.6 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of MoD and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.

Third party reliance

- 4.7 This guidance has been prepared for the use of MoD and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on MoD and the scheme administrator's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 4.8 Other than MoD and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.



Appendix A: Assumptions underlying actuarial factors

Financial assumptions

Nominal discount rate	4.448%
Real discount rate (in excess of CPI)	2.40%

Mortality assumptions

Base mortality tables: normal health	S2PMA and S2PFA
Base mortality tables: ill health	S2PMA and S2PFA
Base table adjustment	110% of Standard Tables
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of use	2020

Other assumptions

Proportion of male members for the purpose of unisexing factors	90%
Age difference between member and partner	Male members assumed to be 3 years older than partner. Female members assumed to be 3 years younger than partner.



Appendix B: Factor tables

Table 401A: Adjustment to Pension

The following factors are used for adjustments to pension in AFPS 75, FTRS, AFPS 05, RFPS and AFPS 15. The factors are unisex.

Age at Early/Late Retirement - Adjustment to Pension - Unisex (AFPS75, 05 and 15)										
	55	56	57	58	59	60	61	62	63	64
Months										
0	0.434	0.454	0.476	0.499	0.524	0.550	0.580	0.611	0.646	0.683
1	0.436	0.456	0.478	0.501	0.526	0.553	0.582	0.614	0.649	0.687
2	0.438	0.458	0.480	0.503	0.528	0.555	0.585	0.617	0.652	0.690
3	0.439	0.460	0.481	0.505	0.530	0.558	0.587	0.620	0.655	0.694
4	0.441	0.461	0.483	0.507	0.533	0.560	0.590	0.623	0.658	0.697
5	0.443	0.463	0.485	0.509	0.535	0.563	0.593	0.626	0.661	0.701
6	0.444	0.465	0.487	0.511	0.537	0.565	0.595	0.628	0.664	0.704
7	0.446	0.467	0.489	0.513	0.539	0.567	0.598	0.631	0.668	0.707
8	0.448	0.469	0.491	0.515	0.542	0.570	0.601	0.634	0.671	0.711
9	0.449	0.470	0.493	0.517	0.544	0.572	0.603	0.637	0.674	0.714
10	0.451	0.472	0.495	0.519	0.546	0.575	0.606	0.640	0.677	0.718
11	0.453	0.474	0.497	0.522	0.548	0.577	0.609	0.643	0.680	0.721

Age at Early/Late Retirement - Adjustment to Pension - Unisex (AFPS75, 05 and 15)											
	65	66	67	68	69	70	71	72	73	74	75
Months											
0	0.725	0.77	0.819	0.874	0.934	1	1.073	1.155	1.245	1.346	1.459
1	0.728	0.774	0.824	0.879	0.939	1.006	1.080	1.162	1.254	1.356	
2	0.732	0.778	0.829	0.884	0.945	1.012	1.087	1.170	1.262	1.365	
3	0.736	0.782	0.833	0.889	0.950	1.018	1.094	1.177	1.270	1.374	
4	0.740	0.786	0.838	0.894	0.956	1.024	1.100	1.185	1.279	1.384	
5	0.743	0.791	0.842	0.899	0.961	1.031	1.107	1.192	1.287	1.393	
6	0.747	0.795	0.847	0.904	0.967	1.037	1.114	1.200	1.296	1.403	
7	0.751	0.799	0.851	0.909	0.972	1.043	1.121	1.207	1.304	1.412	
8	0.755	0.803	0.856	0.914	0.978	1.049	1.127	1.215	1.312	1.422	
9	0.759	0.807	0.860	0.919	0.983	1.055	1.134	1.222	1.321	1.431	
10	0.762	0.811	0.865	0.924	0.989	1.061	1.141	1.230	1.329	1.440	
11	0.766	0.815	0.869	0.929	0.994	1.067	1.148	1.238	1.338	1.450	



Table 401B: Adjustment to Lump Sum

The following factors are used for adjustments to pension in AFPS 75, FTRS, AFPS 05 and RFPS. The factors are unisex.

Age at Early Retirement - Adjustment to Lump Sum - Unisex (AFPS75 and 05 only)										
	55	56	57	58	59	60	61	62	63	64
months										
0	0.789	0.808	0.827	0.847	0.867	0.888	0.909	0.931	0.954	0.977
1	0.790	0.809	0.829	0.849	0.869	0.890	0.911	0.933	0.956	0.979
2	0.792	0.811	0.830	0.850	0.871	0.892	0.913	0.935	0.957	0.980
3	0.794	0.813	0.832	0.852	0.873	0.894	0.915	0.937	0.959	0.982
4	0.795	0.814	0.834	0.854	0.874	0.895	0.917	0.939	0.961	0.984
5	0.797	0.816	0.835	0.856	0.876	0.897	0.919	0.941	0.963	0.986
6	0.798	0.817	0.837	0.857	0.878	0.899	0.920	0.942	0.965	0.988
7	0.800	0.819	0.839	0.859	0.880	0.901	0.922	0.944	0.967	0.990
8	0.801	0.821	0.840	0.861	0.881	0.902	0.924	0.946	0.969	0.992
9	0.803	0.822	0.842	0.862	0.883	0.904	0.926	0.948	0.971	0.994
10	0.805	0.824	0.844	0.864	0.885	0.906	0.928	0.950	0.973	0.996
11	0.806	0.826	0.845	0.866	0.886	0.908	0.930	0.952	0.975	0.998